



Defense Contract Audit Agency

Concurrent Incurred Cost Auditing



Concurrent Incurred Cost Auditing

- Audit Goal/Objectives
- Concurrent Auditing Process
- Policy Guidance



Concurrent Auditing Audit Goal

To perform required incurred cost audit steps as effectively and efficiently as possible in the current period and prior to receipt of the contractor's proposal to facilitate earlier final rate settlement and contract close-out.



Concurrent Auditing Audit Objectives

- Issue audit report 2-4 months after receiving the contractor's submission
- Obtain efficiencies by coordinating incurred cost audit steps with CAS and Internal Control Review steps
- Improve risk assessments through real-time testing of internal controls



Concurrent Auditing Process

- Identifying eligible contractors
- Planning the concurrent auditing procedures
- Timing the audit performance to be as efficient as possible
- Preparing the audit report and dispositioning the concurrent audit results



Concurrent Auditing Guidance

Eligibility Criteria

- Adequate Accounting & Indirect/ODC System
- Adequate screening for unallowable costs for most accounts
- Contractor's prior incurred cost audits planned for completion during fiscal year
- Contractor agrees to support and submits its incurred cost proposals timely



Concurrent Auditing Guidance

Audit Planning

- Early/upfront coordination with contractor & ACO to ensure:
 - ➔ Timely support of the audit
 - Clear understanding of the C/A process as it relates to:
 - screening of unallowable costs,
 - timing of the submission,
 - resolution of findings, etc.



Concurrent Auditing Guidance

Time-phase Audit Performance

- Current Year Procedures
 - ➔ Low-risk accounts
- Intermediate Audit Procedures
 - ➔ Complete testing covering low-risk accounts
 - ▢ Year/end reconciliations
- Final Audit Procedures
 - ▢ High-risk accounts
 - ▢ Final reconciliations



Concurrent Auditing Guidance

Planning for Audit of Specific Accounts

- Criteria to Initially Classify Accounts as High or Low Risk
 - ➔ Expressly unallowable costs were found in previous audit and the contractor has not corrected its system
 - Inadequate screening for unallowable costs



Concurrent Auditing Guidance

Current Period Audit Performance

- Condition for Postponing Current Period Review of a Selected Account
 - ▢ Expressly unallowable costs are found



Concurrent Auditing Guidance

Current Period Audit Performance

- Conditions for Stopping Concurrent Auditing Altogether
 - Expressly unallowable costs are found across a number of accounts
 - Deficient Indirect Cost & ODC Systems
Deficiencies significantly increase audit risk across multiple accounts, or cause the C/A to be ineffective or inefficient



Concurrent Incurred Cost

Final Auditing Procedures

- Steps performed after receipt of submission
- Meet requirements of SAS 45, Substantive Tests Prior to the Balance-Sheet Date
 - Substantive testing for:
 - POE screening for the account is inadequate
 - Transaction Testing was suspended due to internal control weakness



Concurrent Incurred Cost

Final Auditing Procedures

- Reconcile final submission to books and records
- Verify that the concurred to questioned costs disclosed throughout the review are not included in the final submission



Concurrent Auditing Challenges

ACO/Contractor/DCAA team to:

- Eliminate deficiencies in contractor's systems so more concurrent auditing can be performed
- ▢ Ensure adequate screening of unallowable costs



Concurrent Auditing Challenges

ACO/Contractor/DCAA team to:

- ▮ Facilitate timely submission of incurred cost proposals
- ▮ Address eligibility/impact and coordinate with corporate office locations



Concurrent Auditing Benefits

Customer	Contractor	DCAA
<ul style="list-style-type: none">● Final Audit Report 60-120 days after receipt of certified proposal● Early identification & resolution of exceptions● Early negotiation of	<ul style="list-style-type: none">● Current access to records & personnel● Emphasis on internal controls and real-time error detection● Early identification of exceptions should reduce exposure to penalties● Close-out of	<ul style="list-style-type: none">● Reduced cycle time from receipt of proposal to issuance of report● Improved quality without impacting productivity● Improved relations with contractor and contracting